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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

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Support of SB 576 – Corporate Income Tax - Combined Reporting

The Honorable Senator Guy Guzzone

Budget and Tax Committee

Maryland Senate

11 Bladen Street, Room 302

Annapolis, MD 21401

Chair Guzzone, Vice-Chair Rosapepe, and Esteemed Members of the Senate Budget and Tax Committee:

Enacting SB 576 changes how corporate income tax is calculated and provides a more accurate reflection of the profits that large multi-state corporations earn from their activities in Maryland.

Corporations that produce and sell goods in multiple states are required to pay state corporate income taxes based on the portion of their profits that can be attributed to the states in which they operate. Simply selling goods in a state does not alone subject a corporation to that state's corporate income tax. Under federal law, states can only tax corporations with a sufficient "nexus" to the state, which generally means a physical presence. As a result, many multi-state corporations have "nowhere" income that cannot be taxed in any state.

"Nowhere income" creates an opportunity for multistate corporations to avoid paying a state's income taxes. For example, if a Maryland-based company only makes 10% of its sales in Maryland, then the remaining 90% will be "nowhere income" that is not taxed anywhere. Yet, that company takes full advantage of Maryland's infrastructure and talented workforce. This loophole hurts Maryland's small businesses because they usually pay state income tax on 100% of their profits yet must compete with larger rivals that pay much less.

Under a combined reporting law, a multi-state parent company and its subsidiaries are treated as one corporation for state income tax purposes. It establishes that multi-state corporation's report to the state income based on the amount of Maryland business they conduct. This strategy prevents the multi-state company from reducing its taxable profits through a range of legal accounting tactics.

Fairness and the Financial impact

First and foremost, this is a fairness issue. Combined reporting helps to put larger multi-state companies on more equal tax footing with those businesses whose enterprises are in Maryland only. Main street businesses cannot afford these complicated tax avoidance structures. In that way, large multi-state competitors gain an unfair advantage.

Multi-state corporations and their employees consume Maryland resources and services. They use roadways and bridges and ride our mass transit. Their kids attend our public schools, yet their employers are not paying their fair share of taxes.

Many local businesses in each of our own districts have yet to recover from COVID-19. At the same time, many large corporations have done very well and profits have grown.

Combined reporting is well-established around the country in both red and blue states (see attachment). Requirements are currently in effect in 29 states as well as the District of Columbia. Hawaii and New Hampshire have both considered moving to international combined reporting.

SB 576 could provide more than \$200 million per year in additional revenues once fully phased in. The bill would have no effect on local or small business as it only applies to large corporations.

I urge a favorable report.

Sincerely,



Senator Karen Lewis Young